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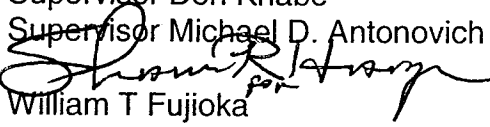
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August 21, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich
From: 
William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum includes information on the State Budget, a Federal injunction of the State's Medi-Cal provider rate reduction, pursuits of County position on legislation and an issue of interest, the status of County-advocacy legislation and legislation of County interest.

State Budget Activities

Governor Schwarzenegger and the four Legislative leaders met on Tuesday, August 19, 2008 for the first time in two weeks to resume negotiations on the State Budget without making any apparent progress. As the budget stalemate continues into day 51, Legislative leaders and the Governor face a deadline of August 24, 2008 to reach a budget agreement to be able to include any measures requiring voter approval on the November 4, 2008 General Election ballot. Issues that require voter approval include: a proposal to borrow against future lottery revenues, a spending cap, a rainy day fund, and a temporary sales tax increase, among others. Sunday's deadline is also important since the National Democratic Convention starts on Monday, August 25, 2008.

Governor's Budget Compromise Proposal

In addition, Governor Schwarzenegger held a press conference yesterday to release his new version of a budget compromise proposal to address the \$15.2 billion deficit and

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the State's broken budget system. According to newspaper accounts, legislators from both political parties have expressed opposition to various key elements of the proposal.

Key Components

The key components of his proposal of interest to the County include:

- **Additional Budget Cuts.** Proposes an additional \$2.0 billion in budget cuts on top of the reductions adopted by the Budget Conference Committee for a total of \$9.9 billion in spending reductions in FY 2008-09. Freezes year-over-year spending for the second year in a row, while indicating that it protects public safety and education funding, and important safety net services. According to the California State Association of Counties, an estimated \$50 million of the additional budget cuts will probably affect various health and human services programs including Medi-Cal, Food Stamps and In-Home Supporting Services.
- **Budget Restorations.** Proposes to restore \$145 million for local public safety programs, including restoration of funding for the Citizen's Option for Public Safety program, the Juvenile Justice Crime Prevention program, the Mentally Ill Offender Crime Reduction Grant program, and the Booking Fee Revenue Account, among others. The reduction to the Juvenile Probation Camp Funding was not restored.
- **Rainy Day Fund.** Proposes to increase the Budget Stabilization Account (BSA), which was established by the California Balanced Budget Act of 2004, from 5 percent of General Fund expenditures to 12.5 percent. It would require annual transfers to the BSA of 3 percent of the General Fund and eliminate the ability to suspend those annual transfers. Stipulates that when the BSA reaches the 12.5 percent cap, excess funds would be available for one-time purposes only. This proposal will not take effect until FY 2010-11.
- **Mid-Year Reduction Authority.** Authorizes the Director of Finance to reduce State operations budgets by up to 7 percent without approval by the Legislature, freeze Cost-of-Living-Adjustments (COLAs), rate increases or increases in State participation in local costs as designated in the State Budget Act, and requires the Governor to submit urgency legislation to suspend COLAs and other rate increases permanently when revenues fall below specified levels. This proposal will not take effect until FY 2010-11.
- **Temporary Tax Increase/Tax Package.** Proposes a revenue package that includes a temporary 1-cent tax increase for three years, excluding diesel, gasoline and jet fuel, followed by a proposed .25-cent reduction from the current rate in the fourth year. Suspends for two years the ability of corporations to

reduce their tax liability based on prior losses, phases in conformity to Federal law over three years starting in 2010 by allowing losses to offset profits in two prior years, and extends the period for carrying forward losses from 10 years to 20 years. Includes a modified Tax Amnesty Program and propose better alignment in the accrual of revenues and accrual of spending.

- Economic Stimulus Package. Proposes to accelerate allocation and disbursement of various infrastructure bonds to stimulate economic growth and job creation, and authorizes new lease revenue bonds to accelerate capital outlay projects for higher education and the Courts. In addition, it proposes to provide flexibility in overtime laws to allow private employers and employees to agree on mutually acceptable flexible work schedules.
- Shift of Funds from Redevelopment Agencies. Proposes to shift local redevelopment agency (RDA) funds to local schools and community colleges in each county. For FY 2008-09 through FY 2010-11, RDAs will be required to transfer the greater of: 1) 5 percent of their tax increment revenue, or 2) \$225 million, to the Educational Revenue Augmentation Funds in their respective counties. These funds will be allocated to schools and community colleges which will reduce the State's Proposition 98 General Fund contribution by an identical amount.
- Modernization and Securitization of the Lottery. Proposes a ballot measure to modernize the State lottery and securitize future proceeds to pay down debt and fill the rainy day fund. This proposal is estimated to generate \$5 billion in FY 2009-10.

Analysis of Compromise Proposal

In the short term, some aspects of the Governor's Proposed Budget compromise would benefit the County while others would result in an overall net loss. Yet other provisions, particularly those related to budget reform, could damage the County in the long run, but it is difficult to predict their long term impact.

Positive Aspects. In the short run, there are no proposals to suspend Proposition 1A, the Protection of Local Government Revenues Act of 2004, or Proposition 42, the Transportation Congestion Improvement Act of 2002. In addition, the Governor proposes to restore funding for the Juvenile Justice Crime Prevention Act (JJCPA), the Citizens Option for Public Safety (COPS) Program, and the Mentally Ill Offender Crime Reduction Program (MIOCR). The County would gain approximately \$1.6 million from partial restoration of JJCPA and COPS funding, while the benefit from MIOCR is unknown because it is a competitive grant.

Negative Impacts. The Governor proposes an additional \$2 billion in reductions including \$50 million in various cuts to health and human services programs. While there are no details on the nature of these reductions, the California State Association of Counties indicates that the majority are likely to affect county administration of health and human service programs including Medi-Cal, Food Stamps, and In-Home Supportive Services. The magnitude of these reductions is likely to exceed the value of the public safety restorations resulting in an overall net loss to the County. The County's estimated loss from Conference Committee actions, as noted in a July 9, 2009 Sacramento Update, was \$58.7 million. That estimate is likely to increase by several million dollars as a result of the Governor's Proposed Compromise.

Another potential negative impact stems from the uncertainty surrounding a proposal to require redevelopment agencies (RDA) to shift the greater of 5 percent, or \$225 million, to Educational Revenue Augmentation Funds (ERAF) in their counties for FY 2008-09 through FY 2010-11. This shift would reduce the State's Proposition 98 General Fund contribution by an identical amount. However, it is not clear if RDAs would be allowed to extend the life of their projects to recoup these funds without a finding of blight for each year they contribute to ERAF. The cost of the additional tax diversion to State and local governments would greatly exceed any current year benefit. The County has opposed similar legislative proposals which would allow the City of Industry to extend the life of its projects without having to demonstrate the existence of blight.

Budget Reform. The Governor proposes to cap expenditure growth at the level of prior year expenditures adjusted for growth in population and per capita personal income. He would also increase transfers into the existing Budget Stabilization Account to create a "rainy day fund" until these deposits reached 12.5 percent of General Fund revenues, approximately \$13 billion in the current proposed budget. In addition, he seeks authority to make mid-year budget adjustments by reducing spending on State operations by 7 percent and to suspend implementation of cost of living adjustments or rate increases whenever a budget deficit developed after enactment of the annual budget. There are no details on how the magnitude of the budget deficit that would trigger this authority. These midyear adjustments would not require legislative authorization thereby granting the Governor unprecedented budget powers.

However one views this alteration in the balance of power among equal branches of government, the expenditure cap may prove troublesome to counties. For example, if the rate of growth in per capita personal income declines or turns negative as is likely during a recession or a period of economic stagnation, the State's spending would be constrained depending on the amount of funding available in the "rainy day fund" to make up for the shortfall. This funding restraint could potentially collide with the needs of counties for additional resources since economic downturns tend to increase health and welfare caseloads. In addition, the spending cap will further disadvantage counties

because they have not received any cost of doing business adjustments since 2001 for various health and human services programs administered on behalf of the State.

Temporary Tax Increase. The Governor would increase the sales tax by 1-cent for three years, excluding diesel, gasoline and jet fuel, to be followed by a .25-cent permanent reduction in the fourth year. Despite the comments of many including the Governor and the Legislative Analyst Office that the State is too dependent on the volatility of the personal income tax, the reduction of the sales tax is likely to make the State even more dependent on that tax source. Furthermore, this proposal assumes that economic growth will generate sufficient revenues to compensate for the permanent reduction in the sales tax.

Federal Injunction on Medi-Cal Provider Rate Reduction

On Tuesday, August 19, 2008 a Federal judge ordered a temporary halt to the Medi-Cal Fee-For-Service (FFS) 10 percent provider rate cut which was approved by the Legislature, and signed into law by the Governor as part of the FY 2007-08 mid-year reductions package. The rate cut for all Medi-Cal FFS providers became effective July 1, 2008. The impact of the rate cut is estimated to result in a loss of \$12.7 million to the County in FY 2008-09. The Conference Committee restored most of the 10-percent reduction effective September 1, 2008, however, the Budget Conference Committee Report, AB 1781, failed to pass out of the Assembly Floor on August 17, 2008. If the court order is upheld, the restoration of the Medi-Cal provider rates would increase the State's \$15.2 billion budget deficit by an estimated \$575 million.

Pursuit of Position on an Issue of County Interest

The California Chapter of the American College of Emergency Physicians (CAL/ACEP) is seeking a legislation vehicle for a proposed amendment which would fix an inadvertent omission in **County-supported SB 1773 (Alarcon) of 2006** which authorized counties to collect an additional \$2 penalty assessment on every \$10 penalty for all criminal offenses and moving violations to augment the Maddy Emergency Medical Services (EMS) Fund. A technical drafting error in that bill omitted reference to the distribution to the EMS Fund of a portion of the fines collected when a motorist chooses to attend traffic school. This provision was part of the original legislation authorizing the EMS Fund. The proposed amendment would restore the authority of counties to distribute these funds as originally intended. The proposed language also would hold harmless counties, such as Los Angeles, which complied with the requirements of SB 1773 and distributed these funds as intended.

The Department of Health Services indicates that in the first 16 months of collections under SB 1773, the portion of the traffic school citation fines which would be available for the EMS Fund totaled approximately \$4.7 million for Los Angeles County alone.

Should this drafting error not be corrected, budgeted funding levels for pediatric trauma centers and private physician indigent care will be significantly reduced. The Department of Health Services and this office support the proposed amendment. Consistent with County support for SB 1773 of 2006 on March 22, 2006, **the Sacramento advocates will assist CAL/ACEP to identify and secure an appropriate legislation vehicle and support that bill upon amendment.**

Pursuit of County Position on Legislation

AB 2759 (Jones), as amended on August 12, 2008, would consolidate multiple preschool programs for low-income 3-year and 4-year old children to establish the California State Preschool Program. Currently, the California Superintendent of Public Instruction administers multiple individual preschool and child development programs for 3-year and 4-year old children. These programs operate on part-day and full-day basis with services provided by public and private agencies, local education agencies, child care centers and family child care home networks, colleges, and community agencies.

AB 2759 would consolidate the State Preschool Program, the Pre-kindergarten and Family Literacy Program, and a portion of the General Child Care Program into the California State Preschool Program. Among its provisions, this bill would:

- Establish funding priority for abused or neglected 3-year and 4-year old children who are recipients of child protective services, or at-risk of abuse, neglect, or exploitation as determined by a written referral from a legal, medical or social services agency;
- Allow the Superintendent of Public Instruction to transfer funds appropriated on or after January 1, 2009 between child care and development programs and the California State Preschool Program for the purpose of maximizing funds;
- Require the California Department of Education to monitor funding used in child care and development programs for infants, toddlers, and hours of service provided in the California State Preschool program, and submit an annual report to the Legislature and the Department of Finance estimating funding used for infants and toddlers and the number of preschool children receiving part-day and full-day services; and
- Require the Superintendent of Public Instruction to encourage contracting agencies to offer full-day services to parents who have a need for this type of care.

Provisions of AB 2759 would become operative on July 1, 2009 only upon concurrent enactment of County-supported SB 1629 (Steinberg) which would, as amended on August 8, 2008, establish the Early Learning Improvement System Advisory Committee to develop a plan to improve the quality of State-funded preschool programs.

In the Senate Floor analysis of AB 2759, Superintendent Jack O'Connell states, "current requirements result in many agencies operating up to five separate and different contracts with the State. As a result, many agencies have the administrative burden of annually accounting for five separate contracts for the provision of one service: preschool. This complexity places a large workload on preschool administrators and decreases the time and resources devoted to increase program quality."

The Policy Roundtable for Child Care, the Department of Children and Families and this office support AB 2579. The Policy Roundtable for Child Care supports efforts that address the continuum of care for children from birth to five years old and their families, and is in favor of streamlining the child care and development system from birth to five years old to make it simple for families to use to address their needs, and to provide child care and development programs with flexibility to administer their contracts to best meet the needs of enrolled families. The Department of Children and Families notes that AB 2759 would make access to, and enrollment in, child care programs easier and less confusing for families whose children are at-risk of abuse or neglect. Support for AB 2759 is consistent with existing Board policy to support efforts to increase access to integrated, high-quality early care and education services that are simple for families to utilize and meet their needs and are efficient for agencies to administer. **Therefore, the Sacramento advocates will support AB 2759.**

AB 2759 is sponsored by Children Now, Preschool California and the Superintendent of Public Instruction. The bill is supported by Advancement Project, Association of California School Administrators Association, California County Superintendents of Public Educational Services Association, California Federation of Teachers, California School Boards Association, California State PTA, California Teachers Association, Child Development Policy Institute, Fight Crime, Invest in Kids, First 5 California Children and Families Commission, Los Angeles County Office of Education, Professional Association for Childhood Education, and Silicon Valley Leadership Group. The bill is opposed by the California Department of Finance. The bill is currently on the Senate Floor for a vote.

Status of County Advocacy Legislation

County-supported and amended AB 31 (De Leon), which would establish the Statewide Park Development and Community Revitalization Act of 2008 and declare legislative intent to make available, upon appropriation, \$400 million in bond funds from the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal

Bond Protection Bond Act of 2006 (Proposition 84) to the California Department of Parks and Recreation (CDPR) to distribute grants to neighborhood and regional park projects in areas of highest need, was amended on the Senate floor on August 12, 2008. The amendments would delete: 1) the grant criteria for projects to serve a critically underserved community and instead, require the project to be located in a critically underserved community, or in the case of a regional park or trail, to be within close proximity to one or more critically underserved communities; 2) the grant criteria for a project to be selected and planned with the active involvement from the public and community-based groups, and instead, make this one of several criteria in evaluating applications and assigning higher priority to applications; and 3) the requirement for a report to the Legislature on grant status and instead, require specified information to be posted on CDPR's Internet website.

The Departments of Beaches and Harbors and Parks and Recreation indicate that the amended version of AB 31 may impact the County's ability to qualify some regional parks, coastal beach facilities, and trail projects for funding. Specifically, the impact of the criterion to award grants to regional parks and trails projects that are located within close proximity to one or more critically underserved communities will depend to a large degree on how the program guidelines will define "close proximity". The Departments of Beaches and Harbors and Parks and Recreation indicate that there will be an opportunity to provide public comment to CDPR during the grant guideline development process and to seek a favorable interpretation of the term "close proximity" prior to the adoption of program guidelines or a procedural guide. The County will maintain its current position on AB 31, as the Departments of Beaches and Harbors and Parks and Recreation indicate that the amendments should not have a significant negative impact on the County. AB 31 passed the Assembly Floor by a vote of 48 to 28, and now proceeds to the Governor's desk.

County-opposed AB 2702 (Nuñez), as amended on August 6, 2008, which would require Maddy Emergency Medical Services Funds designated for 9-1-1 basic emergency rooms to be distributed to Community and Mission Park Hospital of Huntington Park, which has a standby emergency room, passed the Assembly Floor on August 18, 2008 by a vote of 65 to 10, and will be held at the Assembly Desk until the State Budget is adopted.

County-supported SB 1132 (Migden), as amended on April, 9, 2008, which would eliminate the Medi-Cal application requirement for former foster youth who receive Medi-Cal benefits until they reach the age of 21, passed the Assembly Floor on August 18, 2008 by a vote of 61 to 11, and will be held at the Senate Desk until the State Budget is adopted.

Status of County-Interest Legislation

AB 2321 (Feuer), as amended on August 14, 2008, would extend the Los Angeles Metropolitan Transportation Authority's (MTA) existing authority to adopt a .5 percent sales tax in Los Angeles County from six and one-half years to 30 years, subject to a two-thirds approval of local voters in the November 4, 2008 General Election. Unlike the original sales tax provisions enacted by **SB 314 (Murray) of 2003**, AB 2321 would authorize the MTA to incur bonded indebtedness payable from the proceeds of the sales tax. The MTA would be required to adopt an expenditure plan prior to submitting the proposed ordinance to the voters.

AB 2321 requires the MTA to include specific projects and programs in its Long Range Transportation Plan (LRTP) and stipulates that specific project amounts identified in the bill are to be the minimum amounts allocated to these projects from the net revenues from the sales tax increase. The bill defines "net revenues" as all revenues derived from the tax less any refunds, costs of administration by the State Board of Equalization, and costs of administration by the MTA.

The specified projects and programs in AB 2321 would be assigned the highest priority in the MTA's LRTP for funding from the tax revenue. In the event that there is sales tax revenues in excess of the amount needed to meet the expenditure plan, these revenues may be used to complete other projects and programs in the LRTP. The MTA's administrative costs are limited to 1.5 percent of the revenues derived from the tax. Twenty percent of all net revenues are for eligible bus transit operations and municipal transit operators in Los Angeles County and the MTA. Eligible bus transit and municipal transit operators include public operators that provide public bus service in the County who receives formula allocation from Metro. Five percent of all net revenues are for rail transit operations.

The specified projects in the bill are not new, and are already included in existing law. However, some of the project titles have been revised. For example, Crenshaw Metro Rapidway is now Crenshaw Transit Corridor; Metro Gold Line (Pasadena to Irwindale) Light Rail Transit Extension has been changed to replace Irwindale with Duarte; Metro Center Connector is now Metro Regional Connector; and Metro Red Line Extension is now Metro Westside Subway Extension. The bill continues the list of projects and programs as defined in existing law with the same amount of sales tax revenue assigned to each project, except for the Metro Gold Line which is increased from \$328 million to \$735 million. The dates by which the projects must be completed were deleted.

Furthermore, AB 2321 requires the MTA to notify members of the Legislature representing the County of Los Angeles of proposed amendments to the expenditure plan no later than one year prior to the adoption of the amendment and provide a

description of the proposed amendments if they affect: 1) the amount of net revenues derived from the tax; 2) the schedule for the availability of funds proposed to be expended on a capital project or projects identified in the adopted expenditure goal; or 3) the schedule for the estimated or expected completion date of a capital project or projects identified in the adopted expenditure plan. The MTA also would be required to state the reason for the proposed amendments and include the estimated impact of the proposed amendments on the schedule, cost, scope, or timely availability of funding for the capital project or projects contained in the adopted expenditure plan.

AB 2321 is sponsored by the MTA and is supported by a host of agencies, including: California Public Interest Research Group, California Transit Association, Los Angeles Business Council, Los Angeles County Federation of Labor, AFL-CIO, State Building & Construction Trades Council of California, Environment California, and the Cities of Beverly Hills, Culver City, Los Angeles, Santa Monica, and West Hollywood. It is opposed by the Howard Jarvis Taxpayers Association. This measure passed the Senate Appropriations Committee on August 14, 2008 by a vote of 14 to 0 and is currently pending a vote on the Senate Floor.

We will continue to keep you advised.

WTF:GK:ML
MR:IGA:lm

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations